

**To: City Council**  
**From: Michael McLaughlin, City Manager** *MPM*  
**Date: February 4, 2016**  
**Re: Financing options for purchase of 10-A Crescent**

There are two options for financing the purchase of 10-A Crescent – pay cash or take a mortgage. Below is information on both approaches. The cost for 10-A is \$200,000 plus related costs.

1. **Pay Cash** – this option would use available funds from the City’s surplus in the General Fund. As of the end of FY 2015 (June 30, 2015), the City has \$4.3 million in undesignated and unreserved funds in the General Fund. This is 17.5% of the City’s FY 2015 expenses. The City’s policy goal is to have surplus funds of at least 10% of expenses. I would note that this percentage reduces to 16.2% when the surplus is compared to the adopted expenses in the FY 2017 budget.

These undesignated and unreserved funds can also be used to 1) pay off or pay down a portion of the deficit in the 2001 Bond Fund which is approximately \$945,000 from the Public Works facility and theatre renovation projects; 2) pay down the City’s debt; 3) go towards on-going capital projects; 4) be put towards building a infrastructure reserve fund; and/or 5) fund some unfunded capital projects.

2. **Take a mortgage** – In bank terms, the City cannot get a “mortgage”. It can get a commercial loan which has a higher interest rate than a mortgage. Section 58A of the City Charter enables the city to borrow money for the purpose of acquiring historic district property (Attached). The Charter also limits City contracts to ten (10) years.

The Greenbelt Federal Credit Union can provide the loan for up to 15 years at 4.75%. If the City decides on a loan, it is recommended it be for no more than ten (10) years to comply with the limits on contracts. The Credit Union requires a twenty (20) percent down payment. Thus, for a 10 year loan, the down payment would be \$40,000 plus related costs, and the monthly cost would be \$1,677 for a total cost of \$241,300 over the 10 years (\$40,000 down payment and \$201,300 total loan cost).

- (2) Any holder of bonds issued under this section or of any of the coupons appertaining to those bonds, and the trustee, except to the extent the rights herein given may be restricted by the trust agreement, either at law or in equity, by suit, action, mandamus or other proceedings, may protect and enforce any and all rights under the laws of this state or granted hereunder or in the ordinance authorizing the issuance of the bonds or under the trust agreement, and may enforce and compel the performance of all duties required by this section or in the ordinance authorizing the issuance of the bonds, or by the trust agreement to be performed by the city or by any officer thereof.

(i) *Refundings.* The city may issue new bonds to provide funds for the payment of any outstanding bonds. In accordance with the procedure prescribed by this section, the new bonds shall be secured to the same extent and shall have the same source of payment as the bonds refunded.

(j) *General.* Any financing under this section may provide for such security, documents, agreements, provisions and other matters as the council may deem necessary or appropriate to effect the financing of the project. A transaction under this section shall in no event constitute a capital project within the meaning of any charter or statutory provision. Such financing transaction shall be authorized by ordinance without any referendum or other procedure not applicable to all ordinances enacted by the city. The provisions of Section 55 shall not be applicable to revenue bonds issued pursuant to this Section 58.

(Char. Am. Res. No. 1979-3, § 1, 6-11-79)

**Sec. 58A. Financing acquisition of historic district property.**

(a) The city may from time to time borrow money and incur indebtedness for the purpose of financing or refinancing the acquisition of real property, including any interest therein or appurtenant thereto, located within the greenbelt historic district as listed on the national register of historic places, such property to be acquired for use as parks, open space and/or the preservation of the city's historic greenbelt.

(b) An ordinance authorizing indebtedness to be incurred by the city pursuant to this section may provide for such indebtedness to be secured by a mortgage, deed or trust, or other security instrument creating a lien on the property acquired, in whole or in part, with the money borrowed.

(c) The powers conferred by this section are additional and supplemental to the borrowing powers granted to the city elsewhere in this charter and by general law. The provisions of Section 55 shall not be applicable to indebtedness incurred.

(Char. Am. Res. No. 1989-2, § 1, 12-4-89)

**Sec. 59. Contracts over one year.**

Contracts involving the payment of money out of the appropriations of more than one (1) year shall be made only by ordinance, and shall not extend for a period of more than ten (10) years; provided that a mortgage contract with the State of Maryland relating to the